

Appeal of Crown Zellerbach Corporation

Appellant argues that the interest received on the working capital invested in United States obligations as a reserve for the payment of income taxes should be treated as income from intangibles which are so closely related to the operations of the unitary business that the income is subject to allocation among the various states in which the unitary business is conducted. In the alternative, it contends that if the interest income should be attributed wholly to California, then so should the interest expense.

Appellant's first contention is answered by our opinion in Appeal of American Airlines, Inc., entered December 18, 1952, in which we concluded that interest income from United States obligations which were held and used to pay Federal taxes was not subject to allocation as a part of the income of the unitary business. As we there stated:

"The source of the interest received by Appellant was its investment in government securities and not the operation of its airline business, or a related activity. In view of these considerations we conclude that the tax notes were not an integral part of Appellant's unitary business and that the interest derived therefrom was not subject to allocation. "

It is undisputed that the interest expense which was deducted by the Franchise Tax Board in computing allocable net income of the unitary business was incurred for purposes of that business. We have not been presented with a persuasive reason in support of Appellant's position that the treatment given the interest income should dictate the treatment to be given the interest expense. The two items are unrelated. The interest income was not derived from the operation of the business, but from investments. Since the interest expense in question was incurred to produce business income rather than investment income, we believe that the action of the Franchise Tax Board with respect to it was appropriate.

ORDER

Pursuant to the views expressed in the Opinion of the Board on file in this proceeding, and good cause appearing therefor,

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IT IS HEREBY ORDERED, ADJUDGED AND DECREED, pursuant to Section 25667 of the Revenue and Taxation Code, that the action of the Franchise Tax Board on the protest of Crown Zellerbach Corporation to a proposed assessment of additional franchise tax in the amount of \$11,430.39 for the income year ended April 30, 1952, be and the same is hereby sustained.

Done at Sacramento, California, this 17th day of February, 1959, by the State Board of Equalization.

Paul R. Leake, Chairman

Geo. R. Reilly, Member

John W. Lynch, Member

Richard Nevins, Member

_____, Member

ATTEST: Dixwell L. Pierce, Secretary

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Arthur Anderson & Co